Compliments of The First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

TRADE and industry during the month of May have held close to the high level of previous months and the seasonal recession has been distinctly less than usual. Measured in terms both of volume and profits business is making an outstanding record, and one that is all the more impressive by reason of the unfavorable money conditions with which it has had to contend.

Factory employment, according to the Department of Labor, has increased rapidly this Spring and is running 6 per cent ahead of last year, with payrolls averaging 11 per cent higher. Of 23 major classifications of industry reported by the Department, only four—leather, fertilizers, lumber, and stone, clay and glass products—show a reduction of working forces, marked gains appearing in iron and steel, automotive, agriculture implement, non-ferrous metal, and machine tool lines. Consumption of electric power in industry is reported 14 per cent ahead of last year, while railway carloading of revenue freight is exceeding all previous records, the gain for the week of May 18, being 4.2 per cent as compared with the corresponding week of 1928, and 1.8 per cent compared with 1927.

In the steel industry blast furnaces and rolling mill operations are holding close to capacity, and production during the first four months was 11 per cent ahead of last year and at the unprecedented rate of 56,000,000 tons annually. Despite this record production, there is said to be enough forward orders on the books to carry the mills well into the Summer and to minimize the usual slowing down. Unfilled orders of the United States Steel Corporation are the largest in over three years, and earnings of the steel industry for the second quarter doubtless are in line with the excellent results achieved in the first.

The unusual momentum of steel production and demand is a source of surprise to both buyers and sellers, and the explanation seems to be the large increase in automobile demand this year, which is believed to account for perhaps three-fourths of the gain in steel production. Five years ago the motor industry used approximately 10 per cent of the country's steel output; last year it used 18 per cent, and this year it is using 23 per cent.

Monthly production of automobiles continues at a rate far in excess of any previous year, notwithstanding which conditions in the industry are reported sound, with car stocks generally normal, owing to good retail distribution and rapidly expanding exports. It is conceded that manufacturing schedules doubtless will have to be cut later in the year, but as manufacturers are watching the market closely the industry feels confident that overproduction will be avoided.

In a few lines, such as cotton spinning and copper mining, which have experienced exceptional activity, some curtailment seems in prospect or has already been ordered. April mill consumption of cotton was a record for the month, but as sales of cotton goods have failed to keep pace with output mills may have to slow up if overproduction is to be avoided. In copper, the action of the leading producers in moderately reducing mining operations in May appears largely a precautionary move, adopted pending a clearer view of consumer demand during the second half of the year. With refined stocks, despite a small increase in April, still far below normal, the statistical position of the metal continues strong and prices are regarded as well stabilized, at the present level of around 18 cents. If general business holds up domestic consumers are certain to require more copper before long, while foreign demand should be stimulated by the reparations settlement.

Credit Situation a Handicap

All in all the business situation of the moment appears exceptionally favorable, with production in most lines well adjusted to demand, with a high consumer purchasing power, low inventories, and a generally stable price level. It is a pity under these circumstances that a condition of credit has developed which is creating uncertainty and which, if it continues, can scarcely fail to affect business adversely.

For some time the building industry has been feeling the influence of tight money and the lack of a bond market in which construction projects can be financed, with the result that the value of contracts awarded throughout the country has fallen substantially below that of a year ago. While it is true that April showed something of a recovery in the figures, the preliminary reports for May again reflect a decline, and it is probable that complete data for the year to date will reveal a falling off of something like 14 per cent.

The money situation is to be considered also in connection with foreign trade inasmuch as it has been largely through offerings of foreign securities in this market that our huge surplus of exports over imports has been financed in recent years. With our export trade for the first four months of the year running at the highest levels since 1921, and $316,000,000 in excess of imports for the same period, no department of American business is making a finer showing. So far this year, however, the offerings of foreign bonds, notes, and stocks in this country have been only about half as large as a year ago, which raises a serious question as to the means of financing the Fall crop movement upon which the prosperity of the country so largely depends.

The State of Agriculture

The general outlook for the grain crops is very good. The season was backward in April, but at the end of May corn planting is practically completed and the small grain crops are showing good progress, with plenty of moisture in the ground. The Winter wheat crop came into the Spring with less than the usual abandonment, which is just the opposite of last year. Of 43,228,000 acres planted last Fall 40,363,000 are reported as going into harvest, a loss of 2,865,000 acres, whereas last year out of 47,280,000 acres planted only 36,179,000 acres were harvested, an abandonment of 11,101,000 acres, or 23½ per cent.

This favorable showing of Winter wheat is one explanation of the sensational break in prices in the last month. Another is that the carryover July 1 probably will be about 100,000,000 bushels larger than last year, and another is an estimate for an increase of about 1,000,000 acres in the Canadian acreage. Moreover, although crop news over the world are rather conflicting there is no reason as yet to expect less than an average crop anywhere. Under these conditions and with a new harvest in this country soon to begin, speculative holders have been trying to unload. Unfortunately, buyers having the same notion about the situation were inclined to hold off, and something like demoralization occurred. For the first time since 1923 wheat sold below $1.00 per bushel in Chicago, touching 96¼ cents on the 28th for the May delivery.

It is noteworthy that the decline on the Chicago market was 6 to 8 cents per bushel greater than in Winnipeg, Buenos Aires, or the European markets, the explanation of which is that Chicago had been relatively high throughout the crop year, under the influence of domestic speculation. That is to say, speculation had been keeping the price in this country relatively above the world price, an effect of speculation seldom recognized in the agitation against the grain exchanges. That this is true is evident not only from the price record but from the fact that although the wheat crop of this country was 100,000,000 bushels larger in 1928 than in 1927, the exports of United States wheat from July 1, 1928 to May 18, 1929 aggregated only 91,600,000 bushels, against 139,200,000 bushels in the corresponding period of the preceding crop year. It is a significant fact that the low price on the 1928 crop has been reached in the later months of the crop year, whereas the popular idea is that speculators always buy the crop of the farmers at low prices in the Fall and sell it to consumers at high prices in the Spring. The argument for governmental intervention in the markets is based upon this theory, and the present demonstration of its falsity is opportune. The truth is that the course of prices in the Spring depends upon the amount of the visible supply at that time together with the prospects for the crop then approaching harvest. Sometimes the speculators win and sometimes they lose, and whoever carries wheat from Fall to Spring is necessarily a speculator, because he is dealing in uncertainties.

Without attempting to make a prediction, we venture the opinion that the decline of wheat prices in the last month has been too precipitate. The new crop is not yet made, and much of it has two full months of weather hazards to pass. Allowing that it makes an average crop it is to be considered that the world crop of 1928 was approximately 350,000,000 bushels larger than the average of the three years next preceding. In view of these figures, an increase of 100,000,000 bushels in the carryover need not be regarded seriously, for apparently consumption is increasing at a good rate.

Grain Rate Reductions

Another incident in connection with the break in wheat prices is of significance. It having been represented to President Hoover that a large amount of wheat from last year's crop was held in primary markets, country elevators, and farmers' granaries, and that a problem would result in regard to storage room if this wheat was not moved before

harvest, the President called a meeting of the heads of the principal railroad lines between Chicago, St. Louis and the Eastern seaboard and proposed that a special reduction of freight rates on wheat for export be granted to induce a movement of this wheat out of the country. The Eastern railroad officials acted upon the suggestion favorably on May 2, granting a reduction of 5½ cents per hundredweight, and the officials of the Western lines operating to Chicago, St. Louis and Gulf ports took similar action one week later. The combined reduction was 11 cents per hundredweight, or approximately 7 cents per bushel, and a corresponding reduction was necessarily made afterward on flour. The Canadian lines promptly took action on rates to Montreal, to keep Canadian wheat and flour on a parity. The main decline in prices has occurred since the freight reduction and it seems to be a logical deduction that the anticipated movement of new supplies from the interior to the seaboard for shipment abroad caused increased pressure upon world markets and resulted in a decline of prices which practically gave the benefit of lower freight rates to foreign buyers.

The break in wheat has affected all grains and of course is unfavorable to farmers who grow them for market. As against this, livestock, which really constitutes the market for the feed grains, is bringing better prices than a year ago, and dairy products are at about the same level as a year ago. Improved farm machinery is steadily coming into general use and accomplishing a reduction of costs, and States like the Dakotas which a few years ago were mainly devoted to wheat are adopting diversified farming. We note a letter in "The Producer," a monthly publication devoted to livestock, from Miles City, Montana, a locality once considered far outside of corn territory, which says:

> Corn acreage is increasing rapidly, because the modern corn machinery makes it possible for one man to handle much larger acreages than in the past. Listing and four-row cultivators handled by tractors have reduced the cost of early-maturing corn production to a marked extent.

Money and Banking

Violent fluctuations in call loan rates during May, ranging from 6 to 15 per cent, gave evidence of the tension existing in the money market where relatively small additions to, or subtractions from, the supply of funds had an effect out of all proportion to the cause.

Opening the month at 11 per cent, call money, instead of easing off after the first few days as usual, tightened further to 14 per cent, where the renewal rate held for three days. Within two days it dropped to 7 per cent and in two days more was back to 10 per cent. On May 16 money opened at 14 per cent and closed at 8 per cent. Thenceforward, under the influence of stock market liquidation, it gradually worked down to 6 per cent and in the latter part of the month was sometimes unlendable even at this rate.

That such marked instability of rates is injurious to the prestige of New York as an international money center must be admitted, but under the conditions of strain existing today wide fluctuations are inevitable. In normal times when there is a temporarily increased demand for funds banks readily supply it by increasing their rediscounts at the Reserve banks. When the demand subsides and the additional funds are no longer required the banks call them in and pay off their rediscounts. Thus ordinarily a continuous wash of funds in and out of the Reserve banks tends to keep the market on even keel. With the Reserve banks at the present time, however, opposed to rediscounting for stock market purposes, this automatic regulator is no longer working in the same degree as before, and call rates in consequence are bound to go to greater extremes.

Accompanying confused fluctuations in call rates, money in all departments of the market continued tight. Time loans opened the month at 8¼-8½ per cent for 60-90 days and 8-8¼ for 4-6 months, advancing to 9½ and 9 per cent respectively by the 23d, the highest rates since 1920. Subsequently, with stock market liquidation, there was a slight easing to 9 and 8¾ per cent, which still left rates substantially higher than at the beginning of the month. Prime commercial paper continued generally 6 per cent, the highest since 1921, while bankers acceptances, which late in April had dropped by ⅛ to 5⅜ per cent for 90-day bills, were marked up again to 5½ per cent, the highest on record excepting only two days in March this year, when the rate temporarily reached 5⅝ per cent.

Two of the regional Federal Reserve banks —Minneapolis and San Francisco—raised their official rediscount rates from 4½ to 5 per cent in May, bringing all the Reserve institutions in line at the higher rate. Moreover, it became an open secret that at least four Federal Reserve banks, to wit, New York, Boston, Philadelphia and Chicago, had sought and been refused permission by the Federal Reserve Board to raise their rates to 6 per cent, and on May 21, the Federal Advisory Council, composed of bankers and business men appointed by the directors of the twelve Federal Reserve banks, announced after a meeting in Washington their recommendation that such requests by Reserve banks for higher rates be granted.

The Decline of Stock Prices

In the face of so plain a warning as conveyed by these developments, it is no wonder that even the bull element, so long impervious to the increasing gravity of the credit situation,

has been impressed. Discouraged by the continued high rates and by the growing reluctance of the banks to extend their loans on collateral ineligible for rediscount at the Reserve banks, and unable to see any relief ahead, speculative sentiment turned decidedly bearish and stocks almost from the beginning of the month were under pressure. During the latter part of the month the selling became particularly heavy, resulting in severe breaks in many stocks and carrying representative averages to new low points for the year below even the bottom points of the February and March declines.

So long as the movement is orderly a decline of stock prices which will release credit now tied up in securities is just what is needed to clear the money situation. It will temper the speculative spirit which has spread through the country to an unwholesome extent, reduce the amount of indiscriminate buying, and tend to lower in some degree the prices which in many instances represent extravagant anticipation of future earnings. It will not take any real value out of stocks, and the prosperity of the country, which is the basis at last of all stock prices, will be made more secure.

It has taken a long time for the stock market to learn that credit expansion, insofar as the banks are concerned, was up against an obstacle which it could neither climb over nor go around. Perhaps it would be too much to say that the lesson is fully learned, but apparently there is a more general appreciation of the fact that the amount of available bank credit is not unlimited. It would be well if the fundamental reason for tight money could be more generally understood. Reduced to simple terms, it is that the gold mines of the world are not producing gold fast enough to supply the accustomed base, at the rate at which credit expansion has been going on in recent years. The rapid conversion of property from private to corporate ownership, the wide diffusion of corporate shares and finally the development of speculative interest on an unparalleled scale, have caused a demand for bank credit beyond the capacity of the banks to supply. It is true that the figures for the reserves of our Reserve banks appear high, but in fact they are not high when considered in relation to the aggregate volume of demand and short-term credits outstanding in the country. By that criterion bank reserves in this country are much lower than they ever were before the Federal Reserve system was established and lower than the banking reserves of any other country in the world at this time. Since it is evident that there must be a limit to credit expansion somewhere if the country is to remain on the gold basis, and since that limit unquestionably is not far off, most people who are not obsessed by the speculative fever will agree that restriction had better begin before the final limit is actually reached. If the market has come to an appreciation of this fact and concluded to restrain itself, this is a fortunate development.

Within another month the harvest in the Southwest will have begun, involving the commencement of a credit demand which mounts steadily in volume to the peak, usually reached about the middle of October. The spectacle of the country drifting towards this season of greatest strain with its banking system already under severe pressure and with money rates at the highest levels in years, has aroused serious concern lest the disruption of the foreign exchanges and loss of foreign purchasing power resulting from the constant attraction of foreign funds to our call market, combined with the choking off of foreign borrowing due to a stagnant bond market, should interfere with the normal exportation of our agricultural surplus upon which the prosperity of agriculture and of the country generally so largely depends. The Reserve authorities have been aware of the need for correcting these conditions before Fall, and while there is a difference of opinion as to the wisdom of the precise methods pursued, it is to this end that their policy of restricting credit for speculation has been directed.

Member Banks Cooperating With Reserve Authorities

That banks, despite the pressure to which they have been subjected through loss of deposits, have continued to discriminate in favor of industry and trade is clearly shown by the figures of the weekly reporting member banks which represent a good cross-section of banking conditions generally over the country. "All Other" loans, considered largely commercial, at the latest date, May 22, were up approximately $359,000,000 from the January low point of the year, and $167,000,000 since a year ago, measuring the manner in which the banks have responded to the increased needs of a rising volume of general business. At the same time bank holdings of securities for investment have continued to decline and on May 22 were $259,000,000 under the January high point and $395,000,000 less than at this time a year ago.

Loans on securities, which by reason of the great expansion of stock market credit naturally come in for the closest scrutiny, have gone off substantially in recent weeks, and on May 22 stood at the low point of the year, down $414,000,000, as compared with the total on February 6 when the Federal Reserve Board issued its warning against the further diversion of funds to speculation, and only $109,000,000 higher than on the corresponding date a year ago. From the movement of these

loans it is apparent that the majority of member banks have been cooperating wholeheartedly with the Reserve authorities in the effort to limit over-expansion, notwithstanding the refusal of the Federal Reserve Board to permit a 6 per cent discount rate which would have greatly strengthened the position of member banks in dealing with requests for credit. That the aggregate total of brokers' loans has not shown a decline commensurate with that for bank loans on securities, is due, of course, to brokers' loans placed by corporations and other private lenders which have continued to increase, and on May 22 amounted to over $3,000,000,000, according to figures reported by the New York City member banks, or more than half the total of all brokers' loans reported by these banks. Following is a table which shows the trend of these loans for this year and compared with a year ago:

(In millions of dollars)

	May 22	May 1	Apr. 3	Mar. 6	Feb. 6	May 23, '28
Loans on Securities*	7,144	7,371	7,516	7,573	7,558	7,035
Brokers Loans, Total**	5,520	5,531	5,562	5,647	5,669	4,456
For Own Account	827	979	1,021	1,117	1,116	1,247
For Other Banks	1,651	1,676	1,652	1,707	1,931	1,607
For "Others"	3,042	2,876	2,889	2,823	2,621	1,602

* All weekly reporting member banks.
** N. Y. City member banks.

The Sugar Tariff

In the April number of this publication comment was made upon the arguments then being offered at Washington for an increase in the duty on sugar, and now that the new tariff bill has emerged from the House Committee with a provision for increasing the general duty on raw sugar from 2.20 to 3 cents per pound we are moved to present more fully the reasons why we think such an increase will be unwise and unjustified from the standpoint of sound public policy.

We are not accustomed to comment upon tariff policies, for the tariff usually has a close relation to party politics, in which a banking institution does not wish to be involved. Furthermore, we are aware that in discussing the sugar situation, and particularly as related to Cuba, we may expect to have it said that our views are influenced by interests which the Bank has in Cuba. It is of course not a secret that the Bank has interests in Cuba as have thousands of American business corporations and individuals, and it may be fairly claimed that an intimate knowledge of the relations existing between Cuba and the United States is not a disqualification for discussing them. Moreover, it is hardly open to dispute that interests which will be adversely affected by the proposed sugar tariff are as much entitled to a hearing as interests which will be benefited, particularly if the former, in number of persons and aggregate of values affected, are shown to be much more important than the latter. Undoubtedly the controversy should be settled, after a full hearing, with proper regard for the interests of all people concerned, including the masses who consume sugar in the United States.

It may be said further that this Bank has business interests not only in Cuba, but in Porto Rico and the Philippines, countries which are expecting to benefit by the proposed increase, and that its chief interest, incomparably, is in the prosperity of the United States. It is concerned for the many industries of this country whose prosperity is largely dependent upon foreign trade, as the automobile industry, the electrical equipment industry, the farm implement, machine tool, sewing machine, and other branches of the machinery industry, the steel, textile and flour-milling industries, and numerous branches of agriculture, and all the other industries which in the aggregate are selling abroad over $5,000,000,000 worth per year of this country's products. The branches of the Bank in every part of the world are charged with a study of trade relations, and we feel that we know by direct and trustworthy information what this country stands to gain in foreign trade by fair and conciliatory trade policies and what it stands to lose by policies which provoke antagonism and resentment. The proposed increase of the sugar duty is so unfair to Cuba and would deal such a deadly blow to a people whom fate has placed in close relations to this country that we cannot forbear further comment upon the situation.

The Principal Source of International Antagonisms

The people of this country say in generalities that the United States desires to do its full share in efforts to promote the common welfare of nations and develop the spirit of peace and amity throughout the world. Inasmuch as the contacts of the inhabitants of different countries with each other are chiefly in trade, it follows that fair and considerate policies in trade, and particularly where affecting trade relations of long standing, are of the greatest importance to that end. Wherever the livelihood of masses of people is affected by what seems to be arbitrary and unfair action there is bound to be vigorous protest and ill feeling. Moreover, although nations are free to regulate trade, there is a moral obligation upon every member of the world community not to violently disturb conditions upon which the prosperity of other nations is founded, without consideration for the effects. Order and permanence in trade relations contribute to general prosperity, and a nation with a volume of international trade as great as that of the United States has an important responsibility in this respect.

It should not be overlooked that acts by a nation in its organized capacity are in a different class from the competitive acts of individuals. Private competition whether in the domestic or international fields may be disregarded, for it is free, exists everywhere and on the whole serves the general interest, but when nations through their Governments strike deliberate blows at each other's essential industries, bitterness and resentment result.

Pan-Americanism and Cuba

For many years our statesmen of all parties have professed the doctrine of Pan-Americanism, which is supposed to mean that a fundamental basis exists for close and harmonious relations between the countries of the Americas, and that such relations should be cultivated. Our Government maintains at no slight expense commercial advisers and consular officials in all the capitals of Latin America, and the Bureau of Foreign and Domestic Commerce publishes numerous bulletins giving information thus gathered. Our trade associations and Chambers of Commerce hold numerous conventions, not only on the seaboard but in the Mississippi Valley and on the Pacific Coast, to arouse the business interests to an appreciation of the growing opportunities for profitable trade with Latin America. It is a fair presumption that the goodwill of Latin America should not be sacrificed for a mess of pottage. The official headquarters of the Pan-American Union are located in Washington, D. C., and it would seem that the purpose which prompted the formation of that organization and the gift of the building which it occupies should find some degree of expression in our national legislation affecting trade.

The announcement last November that President-elect Hoover would make a goodwill trip to South America was hailed with genuine enthusiasm in this country, and throughout South America, as significant of a desire for closer relations. The influence of goodwill trips, however, cannot be expected to survive the blighting effects of unfriendly legislation.

We have more intimate relations with Cuba than with any other member of the Pan-American Union. We assisted in establishing her independence, making war upon Spain upon the ground that Cuba was so near to our shores that we could not be indifferent to the human distress which existed there, or tolerate it longer. In the treaty determining the relations which henceforth should exist between the two countries, the United States reserved a certain right of supervision over Cuba's fiscal affairs, a right to intervene in the event of social disorder, and a veto right upon alliances between her and other countries. These reservations were made with a friendly purpose toward Cuba and have not been exercised to her disadvantage. All of this history, however, implies that we hold the relations between Cuba and this country to be permanently closer than the relations ordinarily existing between nations. They are based fundamentally upon the proximity of Cuba to our shores. The fact that the United States has an important naval base on the southern coast of Cuba makes the island practically a first line of defence in the event of our being involved in war, and the Guantanamo base is one of the most important defences of the Panama Canal.

The loyalty of Cuba to the relations established by the intervention and treaty is strikingly shown by the manner in which that country followed the United States into the European War. The United States entered the war by the declaration of Congress on April 6, 1917, and on April 7, 1917, the Secretary of State received an official dispatch from the United States Minister to Cuba, dated at Havana on that day, saying:

> Congress convened at 4 o'clock this afternoon. Thirty minutes later Senate unanimously passed measure authorizing the President to declare war on Germany. Fifteen minutes after six, House unanimously passed the act, *members standing and cheering!*

This was a voluntary and spontaneous act, inspired, as the preamble of the resolution declares, by "the historic ties and gratitude which bind us to the great American republic."

Utterances of American Officials

The men whose utterances are quoted below were the public officials who had most to do with the negotiations which established the relations of Cuba with this country at the beginning of Cuba's career as a nation. There were others, among them Senator Platt of Connecticut, but they were in full sympathy with the purpose of McKinley, Roosevelt and Root. That purpose was to give independence to Cuba but to attach her closely to the United States for the good of both countries. These men established Cuba's faith in the United States. The first quotation is from the message of President McKinley to Congress in December, 1899, advising tariff concessions upon Cuban products:

> It is important that our relations with this people (of Cuba) shall be of the most friendly character and our commercial relations close and reciprocal. . . .
> We expect Cuba to treat us on an exceptional footing politically and we should put her in the same exceptional position economically. The proposed action is in line with the course we have pursued as regards all the islands with which we have been brought into relations of varying intimacy by the Spanish war. Porto Rico and Hawaii have been included within our tariff lines to their great benefit as well as ours, and without any of the feared detriment to our own industries. The Philippines, which stand in a different relation, have been given substantial tariff concessions.*
> Cuba is an independent Republic, but a republic which has assumed certain special obligations as re-

gards her international position, in compliance with our request. I ask for her certain special economic concessions in return, these economic concessions to benefit us as well as her. There are few brighter pages in American history than the page which tells of our dealings with Cuba. On her behalf we waged a war of which the mainspring was generous indignation against oppression, and we have kept faith absolutely. It is earnestly to be hoped that we will complete in the same spirit the record so well begun, and show in our dealings with Cuba that steady continuity of policy which it is essential for our Nation to establish in foreign affairs if we desire to play well our part as a world power.

* Products of the Philippines were given free entry into the United States in 1909.

The Hon. Elihu Root in 1901, Secretary of War in President Roosevelt's Cabinet, made the following statement:

In reliance upon fair and generous treatment by the United States, the Cuban planters have made strenuous efforts to revive their great industry. . . Incited by our precept and trusting to our friendship they have struggled to retrieve the disasters under which their country had suffered. All the capital they had or could borrow has been invested in the rebuilding of their mills and the re-planting of their land. More than half of the people of the island are depending directly or indirectly upon the success of that industry. If it succeeds, we may expect peace, plenty, domestic order, and the happiness of a free and contented people to reward the sacrifice of American lives and treasure through which Cuba was set free. If it fails, we may expect that the fields will again become waste, the mills will again be dismantled, the great body of laborers will be thrown out of employment, and that poverty and starvation, disorder and anarchy will ensue; that the charities and the schools which we have been building up will find no money for their support and will be discontinued; that the sanitary precautions which have made Cuba no longer a dreaded source of pestilence, but one of the most healthy islands in the world, will, of necessity, be abandoned and our Atlantic seaboard must again suffer from the injury to commerce and the maintenance of quarantines at an annual cost of many millions.

Cuba has acquiesced in our right to say that she shall not put herself in the hands of any other power, whatever her necessities, and in our right to insist upon the maintenance of free and orderly government throughout her limits, however impoverished and desperate may be her people. Correlative to this right is a duty of the highest obligation to treat her not as an enemy, not at arm's length as an aggressive commercial rival, but with a generosity which, toward her, will be but justice; to shape our laws so that they shall contribute to her welfare as well as our own.

In December, 1901, President Roosevelt in his annual message to Congress, said:

Elsewhere I have discussed the question of reciprocity. In the case of Cuba, however, there are weighty reasons of morality and of national interest why the policy should be held to have a peculiar application, and I most earnestly ask your attention to the wisdom, indeed to the vital need, of providing for a substantial reduction in the tariff duties on Cuban imports into the United States. Cuba has in her constitution affirmed what we desired, that she should stand in international matters in closer and more friendly relations with us than any other power, and we are bound by every consideration of honor and expediency to pass commercial measures in the interest of her material well-being.

The trade relations between the two countries have been advantageous to the United States. In her years of prosperity Cuba has bought more of the products of the United States than has any other member of the Pan-American Union, and in proportion to her population always has bought more. In fact Cuba takes normally about one-fourth of all the United States products sold in Latin America. The trade is naturally reciprocal and complementary, rather than competitive, for while Cuba produces sugar more economically than it can be produced in the United States, she buys nearly all other agricultural products and most articles of manufacture in this country. In all relations the two countries have been growing more closely together.

In view of this natural community of interests, as well as the political ties existing, it would seem that if Pan-Americanism means anything in the trade policies of this country it should appear in our trade relations with Cuba. Do we want to say that it means nothing there, and if this is the case how can we make any more professions in its behalf?

Do we want to say that the prosperity and welfare of Cuba, whose principal industry through long established relations has developed in natural and confident dependence upon the United States market, means so little to us that we will adopt a policy which threatens the ultimate exclusion of the product from this country and the destruction of the industry?

The Situation in Cuba

Sugar is by far the most important product of Cuba and nearly the entire production must be sold abroad. The home consumption is estimated at 150,000 tons and the crop of 1928-29 is above 5,000,000 tons. In the five years 1924-1928 the exports of sugar amounted to 84.6 per cent in value of the total exports of the country. Tobacco, which ranks next, answered for 11.4 per cent of export value in the same time. Sugar is the chief money crop, giving employment to labor, distributing income throughout the island and affording the basis for all business. The predominance of sugar in Cuba is easily accounted for—

Cuba has vast areas of land better adapted, perhaps, than any other region in the world both with respect to soil and climate for the production of sugar.

This quotation is from a book entitled "Sugar in Relation to the Tariff," by Professor Philip G. Wright, former expert of the United States Tariff Commission, under the sponsorship of the Institute of Economics, Washington, D. C., a fact-finding organization established by the Carnegie Corporation of New York.

Moreover, besides having the natural conditions for the cheap production of sugar it also happens that Cuba is located close to the greatest consumption market for sugar in the world, the United States market. From no other source can the people of the United States be supplied with sugar at so low a price as from Cuba, and be it noted that this is the result of a combination of natural conditions. Judged by the value to a great population of a

cheap supply of an essential article of food, it would be called a fortunate situation.

Under the circumstances it was natural that Cuba always should be an important source of sugar supplies for the United States, and when the United States took Cuba under her protection, and order, property rights and close economic relations between the two countries seemingly were guaranteed, capital flowed from this country into the Island in large amounts, for the reconstruction, improvement and development of the industry. Although Secretary Root, as quoted above, said of the Cuban planters that "all of the capital which they had or could borrow had been invested in rebuilding their mills and replanting their land," they would not have been able alone to command the capital required to develop the industry to its present capacity and high standard of efficient operations. American capital assisted, and it is not too much to say that in doing so it was acting under the encouragement and following the lead of the American Government. The aggregate investment of capital in the sugar industry in Cuba at the present time is estimated at $1,250,000,000, and the American-owned share at two-thirds to three-fourths of the total. The total of American capital invested in Cuba is estimated in a report of our Department of Commerce at $1,250,000,000, and that portion which is in railroads and other properties outside of the sugar industry may be said to be almost as dependent upon sugar as that which is invested in the sugar industry direct. The same is true of all business in the Island.

American Investments in Cuba

We do not say that these American investments are entitled to any more consideration than like investments of Cubans or citizens of other countries, but we say that all investments in legitimate industry are entitled to consideration, and that investments in Cuba in the last thirty years have been encouraged by the political relations existing between the two countries. Moreover, the transfer of these sums of capital from the United States to Cuba has been accomplished largely by expenditures made in the United States for industrial machinery and equipment, construction materials, etc., and American industries have benefited thereby. Furthermore, the increase of the productive capacity and purchasing power of Cuba was reflected in a sustained increase of imports from this country. Prior to the adoption of the reciprocity treaty in 1903 the exports of the United States to Cuba had reached their highest point in 1902, when they aggregated $26,623,000. They increased steadily to $95,750,000 in 1915, and thereafter the figures of course are affected by rising commodity prices, but reached $515,209,000 in 1920. From that point, with the decline both in the prices of United States exports and also in the purchasing power of Cuba due to the falling price of sugar, they slumped to $198,625,000 in 1925, $160,500,000 in 1926, $155,000,000 in 1927 and $128,000,000 in 1928. In 1920 Cuba occupied fourth place among countries in volume of imports from the United States. In 1928 she had fallen to eleventh place. The falling off in Cuban purchases is notable in flour, lard, eggs, meats, condensed milk, lumber, cotton goods, shoes, machinery and a wide variety of merchandise.

In comparison with the above figures of capital invested in the sugar industry of Cuba, it is proper to say that the United States Tariff Commission in its Report upon Sugar in 1926, page 98, gives the total investment in the beet sugar industry of the United States as $221,000,000, and in the cane sugar industry that of Louisiana as $56,274,000.

Mr. John E. Snyder, representing the Hershey Corporation, of Hershey, Pennsylvania, manufacturers of chocolate, appearing before the House Committee on Ways and Means recently, submitted a statement in behalf of that corporation, from which we take the following. This corporation is a large consumer of sugar and went into the sugar industry in Cuba some years ago primarily for the purpose of supplying its own needs:

> Acting under the provisions of the reciprocity treaty and encouraged by all the administrations of the United States, without regard to political views or parties, United States capital has gone into the island of Cuba and aided in the development of its industry to the extent of approximately 75 per cent of its sugar production. The ownership of the securities of these companies is widely and generally held throughout the United States. Of those who have done this the Hershey Corporation is one and is there engaged in growing cane, making sugar and refining it.
>
> At the time this capital was invested and these developments undertaken such acts were looked upon with favor in the United States as thereby extending its influence in developing trade relations with other countries, which were then being encouraged. What was then looked upon with favor and encouragement, discussions before your committee in relation to the tariff now indicate to have been high crimes and misdemeanors, which should be penalized by tariff legislation, thereby causing the parties engaged in them to forfeit their investments.
>
> To show the importance of the matter under consideration to the Hershey Corporation and that portion of the Republic of Cuba in which its industry is conducted, the following is submitted showing the land areas occupied, the railroads used, employees, etc., whose interests are at stake:

Land area occupied, owned and leased	133,115 acres
Railroads, plantation and used for public service	197 miles
Employees	3,241
Colonos and subcolonos (cane farmers and growers)	2,965
Colonos and subcolonos (employees)	6,000

Competition With Cuban Sugar in the United States Market

Although Cuba always has been an important source of supply for the United States it never has had a monopoly. The reciprocity treaty with Cuba was ratified on December 27, 1903, and 1904 was the first year under the treaty. The statistics of imports prior to 1904 do not show the quantities coming from Cuba, but the first table shows the quantities coming from the several sources of our supply in 1904 and in 1928, with the percentage of each contribution to the total.

These figures show that although Cuban sugar has gained in its share of the total consumption of the United States it has not gained at the expense of beet sugar, for the latter has increased largely. It shows the large gains made by our insular possessions under the stimulus of free entry to the United States. The falling off in our imports from Cuba in 1928, and to some extent in 1927, was due in part to the governmental restriction of the Cuban crop. As giving a more complete showing of the relation of Cuban imports to other supplies in recent years we give in the second table figures for the last five years.

Import Duties Since 1890

Imported sugar almost always has borne a customs duty, originally imposed for revenue purposes, but soon appreciated by domestic producers for the protection it afforded against foreign competition. Beet sugar did not appear in considerable quantities until about 1890, and in 1900 the production was only 77,000 long tons. Under the McKinley act, passed in 1890, foreign sugars were admitted duty free and a bounty of 2 cents per pound was paid upon all home production. This gave a strong impetus to the beet sugar industry. The McKinley act was repealed under the Cleveland administration in 1894 and a duty of 40 per cent ad valorem applied for revenue. This realized a shade more than 1 cent per pound. Beginning with this tariff the changes upon raw sugar by the several acts have been as follows, the figures applying to 96° sugar:

	Cents per Pound: Full Duty	Cents per Pound: Reciprocity Rate to Cuba
Wilson bill, 1894, 40 per cent ad valorem, yielding approximately	1.05	
Dingley bill, 1897	1.685	
Porto Rico given 85 per cent reduction from full duty after May 1, 1900.		
Porto Rico, product made free, 1901.		
Philippines product fixed at 1.26 cents, 1903.		
Reciprocity act applied to Cuban sugar, Dec. 27, 1903		1.348
Philippines product made free, 1909, with limit of 300,000 tons per year.		
Underwood bill, 1914	1.256	1.008
Limit removed from free Philippines product.		
Virgin Islands, free, 1917.		
Emergency tariff act, 1921	2.00	1.60
Fordney act, 1922; now in force	2.206	1.7648

With the growth of the beet sugar industry in this country, and particularly with its extension east of the Missouri River, the ques-

REFINED OR CONSUMPTION BASIS
(Willett & Gray figures)
(Long Tons—000 Omitted)

	1904 Tons		1904 Per cent.		1928 Tons		1928 Per cent.	
Hawaiian Cane	331		11.96		683		12.32	
Porto Rican Cane	117		4.23		592*		10.68	
Philippine Cane	22		.80		476		8.59	
Total Insular Possessions		470		16.99		1,751		31.59
United States Cane		324		11.72		116		2.09
United States Beet		170		6.14		1,037		18.72
Various sugars, maple		27		.97		1		.02
Total Domestic—non-dutiable		991		35.82		2,905		52.42
Cuban Cane, under preferential duty		1,131		40.87		2,608		47.06
Full Duty Importations		645		23.31		29		.52
Total Consumption		2,767		100.00		5,542		100.00

* Includes Virgin Islands production.

FIVE YEARS, 1924-1928
(Long Tons—000 Omitted)

	Refined or Consumption Basis (Willett & Gray figures) 1924	1925	1926	1927	1928	Five Year Average Tons	Five Year Average Percent
Domestic Cane and Beet	826	1,012	943	819	1,153	951	17.7
Island Possessions Sugars	1,117	1,555	1,397	1,560	1,753	1,476	27.5
Total Duty Free	1,943	2,567	2,340	2,379	2,906	2,427	45.2
Cuban Sugar	2,824	2,909	3,291	2,913	2,608	2,909	54.1
Full Duty Sugars	86	34	40	6	29	39	.7
Total	4,853	5,510	5,671	5,298	5,543	5,375	100.0

tion of the rate of duty required for its protection has been the subject of increasing controversy. Freight charges from New York on imported sugar afford a degree of protection for sugar produced in the western territory for consumption there which producers farther east do not have. The present rate on sugar from New York to St. Louis is 66 cents per cwt., and to St. Paul, Minneapolis, 69 by rail or 60½, rail and lake.

It will be seen that during the period of 35 years covered by the above table the present rate of 1.76 cents per pound has been the highest rate at any time in force against Cuban sugar. In the ten years from 1904 to 1914 the production of beet sugar increased from 208,000 tons to 654,000 tons, although the reciprocity rate on Cuban sugar was only 1.348 cents per pound. After 1914 beet sugar production made a further increase to 969,000 tons in the crop year 1920-21, but in these years it is conceded that war conditions rather than tariff conditions ruled the sugar markets. The record production of beet sugar was in the crop year 1924-25, when it was 974,000 long tons. The production of the last two years has been only slightly less, to-wit: in 1927-28, 965,000 tons, and in 1928-29, 949,000 tons. Since 1920 the sugar industry all over the world has passed into an extreme depression, and it is significant that although prices in this country have been lower, production has not declined materially.

Cost of Production

Several calculations under impartial supervision have been made in recent years to determine the actual difference in costs of producing beet sugar in the United States and raw sugar in Cuba. The Food Administration made such an effort during the war, with the aid of the Tariff Commission, and its conclusion was 1.38 cents per pound.

In 1923 the United States Tariff Commission undertook an investigation with the approval of President Harding. This was an exhaustive study, including an examination by a staff of experts of the books of cane sugar companies in Cuba, Porto Rico, Louisiana and Hawaii and of beet sugar producers in the United States. The Commission divided in its conclusions, the majority finding the difference to be 1.23 cents per pound, and recommending a reduction on full duty sugars from 2.206 to 1.54 cents, which would involve a reduction on Cuban sugar from 1.764 to 1.23 cents. The minority, however, found the difference in cost to be 1.8525 cents and dissented from the recommendation of the majority.

In 1924, the Institute of Economics, Washington, D. C., to which reference has been made above, undertook its investigation of the sugar industry, under the direction of Professor Philip G. Wright. The Tariff Commission had not concluded its investigation. The Institute made a careful and impartial survey of the industry, giving weight to the vested interests of producers both in this country and in Cuba, as the result of Governmental encouragement. It pointed out that in order to determine the rate of duty required to properly protect the beet sugar industry of the United States it was necessary to first determine what part of the consumption of the United States it was desirable to have supplied from this source. If it was intended to exclude all Cuban sugar and develop the domestic industry to completely supply the domestic demand, obviously a higher rate of duty would be necessary than if the intention was only to maintain the present proportion of domestic production, or any proportion short of 100 per cent. It is also pointed out that revenues from sugar always have been an important factor in our fiscal system, while furnishing protection to a gradually growing domestic industry, but that if foreign sugars were excluded entirely revenues from that source would cease entirely, and the duties would remain simply as a means of securing higher prices for the producers. It reached the conclusion that a rate of 1.25 to 1.50 cents per pound would be sufficient to stabilize the industry.

The World Depression in Sugar

The organized movement of domestic sugar producers for more protection is based largely upon representations that the industry is suffering from the aggression of foreign producers and particularly the Cuban producers. The increase, therefore, is represented as a defensive measure, necessary to preserve the domestic industry from extinction. This is not a correct or fair representation. The truth is that the sugar industry is in greater distress in Cuba than in the United States, and there is every reason to believe that a greater decline of production will occur elsewhere than in this country. The war almost destroyed the beet sugar industry in Europe, and production fell from 7,968,000 tons in 1913-14 to 2,594,000 tons in 1919-20. The demand upon the producing countries outside of the war area, and the high prices resulting naturally caused the expansion of the industry wherever sugar could be produced advantageously. Cuba responded to the appeal to produce more food, as did the farmers of the United States. Then came the recovery of agriculture in Europe, including the beet sugar industry. The beet sugar output of Europe has risen from 2,594,000 in 1919-20 to 8,315,000 tons in the season of 1928-29, and world production in 1928-29 is estimated at 26,900,000 tons, against 15,501,000 tons in 1919-20. The world does not want so much sugar, and it is selling everywhere at very low prices. The remedy is in a

curtailment of production, or the situation will gradually correct itself by an increase of consumption, provided no artificial measures are adopted which will stimulate greater production.

Cuba has not increased its production in recent years more proportionately than other countries, and has done more than any other country to relieve the stress of over-production, by an act of Congress under which the output was curtailed in 1927 and 1928.

The situation as it now stands is temporary, because the increase of production has been stopped and the tendency is to curtailment, but if every country which is now an importer to any extent puts up its tariff wall to exclude all imports, increased production in such countries will be stimulated, the aggregate of world production will be increased, and disastrous results will follow in all countries which are accustomed to export sugar. This will mean a far-reaching disturbance of international trade, illustrated by the figures showing the shrinkage of Cuban imports from the United States in the last three years, from $198,000,000 to $127,000,000.

The very reasonable calculation of the Institute of Economics makes the difference between the costs of sugar production in Cuba and in the principal beet sugar districts of the United States as ranging from 1¼ cents to 1½ cents per pound. It should be borne in mind that costs vary between producers even in the same localities, and this calculation was intended to amply cover the variations between reasonably efficient producers. There is no reason to think that the difference now is greater than in 1924, and since the duty on Cuban sugar is 1.76 cents per pound, the difference in production costs is more than covered, without taking into account charges which Cuban sugar must pay to reach any point in the interior of this country.

The fact is that the sugar industry in Cuba is not being operated at a profit, but under heavy losses, as the balance sheets of even the most efficient companies show. Furthermore, the industry has been for several years on a basis which afforded profits to but few producers. Many have been obliged to borrow money to pay interest upon indebtedness and continue operations. Their situation has been worse by 1.76 cents per pound than that of the insular producers who have had free access to the United States market, and the beet sugar producers have had a further advantage in freight charges.

We have compiled the following table showing the results of the operations of 43 companies producing sugar in Cuba, Porto Rico, Hawaii and the United States, which is the full number for whom reports upon 1928 business are now available. The figures show results in 1927 and 1928, and the percentage of gain in 1928 over 1927, where gains in the aggregate were made:

NET PROFITS OF PRINCIPAL AMERICAN SUGAR PRODUCING COMPANIES FOR CALENDAR OR FISCAL YEARS

(ooo omitted)

No.	Group	1927	1928	Per cent
16	Cuban	$ 4,448	D-$4,281	....
4	Porto Rican	7,154	7,970	+11.4
17	Hawaiian	10,200	11,671	+14.4
6	Domestic Beet	3,957	9,027	+128.0
43	Total	$25,759	$24,387	—5.3

D-Deficit.

Note: The sixteen Cuban companies above are leading companies, producing approximately 45 per cent of the production of the Island. Of these, eleven had deficits and five showed nominal profits, but these profits are scanty or worse. For example, the Cuba Cane Sugar Corporation, the largest producer in the Island, reported net profits of $214,000, before charging off $5,431,000 against doubtful colono accounts, some of which had been carried over from previous years. This showing was on production sales aggregating $27,013,000 and upon capital and surplus funds of $67,479,000. Cuban American Sugar Company is another of the five, reporting profits of $183,000 on sales of $23,670,000 and a net worth of $44,598,000. Manati Sugar Company reported profits of $318,000 before charging off $505,000, on sales of $5,438,000 and a net worth of $14,274,000. Francisco Sugar Company reported profits of $398,000 before charging off $472,000, on sales of $6,093,000 and a net worth of $9,503,000. Cespedes Sugar Company reported (17 months period) profits of $105,000 on sales of $2,053,000 and a net worth of $5,242,000. The combined showing of net profits of the five companies amounted to $1,218,000, which represented only 1.9 per cent on sales of $64,267,000 and only 0.9 per cent return on a net worth of $141,095,000, and this reported profit would be more than offset by the special surplus adjustments made by the accountants against colono accounts.

The remaining eleven Cuban companies which operated at a loss had combined deficits last year of $5,499,000, or 4.0 per cent loss on a net worth of $137,398,000.

All four of the leading Porto Rican sugar companies reported profits last year, and the same is true of the seventeen Hawaiian producers.

Of the six domestic beet companies reporting for last year, all showed a profit except one, which had a small deficit. These six companies produced about 80 per cent of the total domestic production.

RETURN ON NET WORTH OF PRINCIPAL AMERICAN SUGAR PRODUCING COMPANIES

For 1928 Calendar or Fiscal Year

(000 omitted)

No.	Group	Net Worth	Net Profits	Per cent Return
16	Cuban	$278,493	D-$ 4,281	D- 1.5
4	Porto Rican	58,312	7,970	13.7
17	Hawaiian	105,282	11,671	11.0
6	Domestic Beet	131,495	9,027	6.9
43	Total	$573,582	$24,387	4.2

D-Deficit.

The foregoing statements cover the crop year 1927-28. At the hearings of the Ways and Means Committee of the House of Representatives, held in January, 1929, the United States Sugar Association, composed of American companies interested in the Cuban sugar industry, presented a statement of the earnings over several preceding years of 23 leading companies, producing approximately 49 per cent of the total Cuban production and

representing about $300,000,000 of invested capital. In the aggregate, their operations in the crop year 1926-27 yielded a net profit of $4,229,404, in 1925-26 resulted in a loss of $7,-545,034, and in 1924-25 yielded a profit of $711,076. Thus in the four years 1925-29 these 23 companies—among the largest and most efficient producers of sugar in the world —in the aggregate of their operations have lost money. And if this is the situation as to these companies, what probably is it as to the smaller companies? Furthermore, the current year, 1928-29, will make a worse showing, as the price of sugar is lower than at any time last year.

It is evident that the sugar industry of Cuba is on the verge of ruin. The first cause is not the impending tariff, but the state of overproduction which exists in the industry throughout the world. This evil, however, will be gradually corrected by the curtailment of production which must inevitably occur, and the producers who are able to hold on and save their properties may look forward to a restoration of normal conditions in time, providing no new factor develops to prevent such recovery. The proposed increase in the United States tariff is a new factor which immediately affects the ability to hold on, and almost banishes hope.

Probable Effects of Increasing the Duty

The first effect of the proposed increase of duty will be to increase the price of sugar to consumers in this country, for the addition of .64 cents per pound in landed cost, even with the accretions which may occur on the way through the trade, will not deter the American people from eating sugar, and since the production of sugar in this country cannot be readily increased, imports will continue about as heretofore. The alarming possibilities of the act as seen by producers in Cuba are in the inducement which will be offered for increasing production in the United States and the insular possessions which have free access to this market. These producers are now supplying approximately one-half of the sugar consumed in this country, and considerably more than one-half of the one-half is from the islands.

Leaving out of consideration the probabilities of expansion in the islands, there will remain under a duty of 2.4 cents per pound and a difference in costs of only 1¼ to 1½ cents, an enormous inducement for the expansion of beet sugar production in the United States. At the present price of Cuban sugar in New York harbor, pre-duty, an import tax of 2.4 cents per pound would be approximately 133 per cent ad valorem, and an advantage of 1 cent per pound in price — after practically equalizing costs—would mean exclusion to Cuban sugar as fast as the domestic product could take its place. It is not too much to say that a duty of 2.4 cents will be an invitation to produce beet sugar almost without regard to costs, until domestic production has expanded to a point where it can completely supply the needs of the country. After that the wholesome influence of competition will be felt, but meantime consumers will pay close to the full duty and the Cuban producers can see themselves steadily losing their place in the market. If this should not be the result, it would only prove that the beet sugar industry is so unsuited to agriculture over the greater part of this country that it is not entitled to the extraordinary subsidy which it is asking at the expense of sugar consumers.

The Threat to Cuba

Throughout the propaganda in behalf of the increase there runs the plea for an expansion of the beet sugar industry to supply the full consumption of the American people. It is urged for the diversification of agriculture, to keep more of the population on the land, to keep our money at home, to make us more independent in case of war, and for various reasons to which we need not refer. The point is that the purpose of the movement is not simply the maintenance of domestic sugar production on the present scale, but an increase to cover all needs. This would mean ruin not only to the Cuban sugar industry, but to Cuba, for the location of the island makes it practically dependent upon the United States for a market for any products which it may produce above its own needs. Europe is far away, and England has preferential relations with her own colonies, while the sugar beet has been so long established in the agriculture of the continent that no new market can be looked for there.

A tariff which would make beet sugar production generally profitable in this country, in comparison with other agricultural products would be a standing menace to Cuba as long as it was in force. It would enforce a gradual process of strangulation, as domestic production increased, but the immediate blow to the Cuban industry would be fatal to perhaps most of the producers, for the credit of the industry and the saleability of sugar properties would be affected at once. As more of the Cuban product was forced upon other markets the natural recovery from the present crisis would be prevented and the crisis in the world industry prolonged.

When the full measure is taken of what the ruin of the sugar industry would mean to the 3,500,000 inhabitants of Cuba, no parallel for the disaster can be found outside of the annals of war, and the injury done in this case would be far more lasting than the

injuries of war. Devastated Belgium and France have been rebuilt and are more prosperous than before, but there would be no rebuilding of Cuba until a market was found for her products. The prosperity of Cuba depends upon her ability to utilize her soil and climate for the purpose to which they are supremely suited and to trade with a population which will take such products in exchange for their own. In all history there has been no such destruction of property values or displacement of an industrial population by legislative decree as would result from forcing the people of Cuba to abandon sugar production, or even to cut it one-half. Alternative employment for the population cannot be named. The people are unskilled and without experience in anything else, and the United States wants nothing else from Cuba any more than it wants sugar. Exclusion of its products from this country would mean the depression of Cuba to a distinctly lower level of social life.

It cannot be too forcibly stated that while the beet sugar industry is fighting for expansion—to capture the full United States market—Cuba is fighting for life, to hold the place she has long held in the only available market for her product, and for the only means of a decent livelihood for her people.

We do not believe for a moment that the American Congress will do this wrong to Cuba if the significance of the action is fully understood.

Obstacles to Beet Sugar Development

We are not predicting that Cuba will be rapidly forced out of the United States market, for there remains the possibility that the beet sugar industry will prove to be so far unsuited to the agriculture of this country that it will not develop even under the enormous bounty proposed. In the first place, the situation will be so artificial and dependent upon the will of Congress that it may be doubted that much capital can be found for investment under the conditions. In the second place, all experience with the industry has shown that American labor cannot be found to do beet farming. The Bureau of Labor, Washington, D. C., reported in 1927 the results of a survey of the industry, showing that in the sugar beet fields of Ohio, Michigan, Iowa, Minnesota, and North Dakota 75 to 90 per cent of the workers were Mexicans, usually imported for the purpose. The other 10 to 25 per cent were largely Europeans. Testimony before the House Committee has been practically unanimous to the effect that beet cultivation is not the American kind of farming, and since there is a question whether Mexican labor will be continually excepted from the immigration laws, the expansion of the industry is by no means a certainty.

Bills for applying the immigration laws to immigrants from Mexico are pending before Congress now and the House Committee on Immigration has been taking testimony on the subject. The beet sugar industry opposes such action on the ground that the Mexican labor is necessary to the industry. We quote from a few examples of this testimony.

The labor superintendent of the American Beet Sugar Company testified as follows:

> "The class of labor used in the beet fields of which I speak (Iowa and Minnesota) is composed of German-Russians, Bohemians, Belgians, Hungarians, and Mexicans. The percentage of this labor is divided into approximately 40 per cent white and 60 per cent Mexican. * * * Present industrial conditions are such that this white labor has been absorbed, and we are now dependent upon Mexican farm labor as the only available kind to be secured."

Congressman Edward T. Taylor, of Colorado, is quoted as follows:

> "Our American labor does not do this kind of work. I never in my life have known of any member of organized labor going into a sugar-beet field. * * * The American laboring people will not get down on their hands and knees in the dirt and pull weeds and thin these beets and break their backs doing that kind of work."

The vice-president of the Mountain States Beet Sugar Growers' Association testified as follows:

> "I want to say to you that there is not a white man of any intelligence in our country that will work an acre of beets. * * * I do not want to see the condition arise again when white men who are reared and educated in our schools have got to bend their backs and skin their fingers to pull those little beets."

The Menace of Uncertainty

If this foreign labor supply should be cut off the plan for making this country self-supporting in sugar might not be realized for a long time. Nevertheless, the injury to the Cuban industry may be very great even though benefits to the United States are very small. Without Mexican labor, higher wages might be paid for other labor, and probably would be, up to the point where the profits of the industry would be no greater than now, and higher duties might be asked for and obtained on that ground. The Cuban industry would not know where it stood during all this period of experimentation nor for that matter would the domestic industry. There always would be the chance that a change of political power at Washington might knock the props from under the industry.

If the increase was to be only temporary, to protect the price in the United States during the temporary depression in world prices, the case would not be so serious, but new vested interests will be created from the day the increase goes into effect. Every new sugar beet factory built will be said, and with some reason, to have been established in reliance upon the good faith of the United States, and every year that passes and every new factory built will make more difficult any

downward revision. There always will be marginal producers, established where they have no business to be, who will claim that any reduction will ruin them and that they were established under the pledge of protection.

Not a Natural Industry

The consideration of outstanding importance in this sugar controversy is that sugar is produced in the tropics through the medium of the cane plant more economically than it is produced anywhere through the beet plant. It is a product of the sun acting upon vegetation, and the larger gain which results from production under the most favorable conditions is a gift of Nature which in the interest of human welfare should be gladly availed of unless there are opposing considerations as clearly related to the general welfare. Much is said of the long-established policy of European nations in encouraging beet sugar production, but Europe has not the climate for sugar cane, and there is no cane sugar production nearer than Asia or the West Indies. When the beet sugar was founded in Europe ocean transportation was slow and uncertain for various reasons, the danger of interruption by war being one. The value of home food supplies is still highly rated in Europe. The position of the United States as regards sugar is different. Cuba, geographically, is almost part of the United States, is naturally so economically, and there is no danger of its becoming an "enemy" country.

For the United States to develop the beet sugar industry to supply all its own needs would require the payment of an enormous subsidy to induce the farmers of this country to displace their natural crops. It would be an unprofitable, disadvantageous, employment of land and labor. An illustration of fallacious thinking on the subject is afforded by an argument by the Secretary of the American Beet Sugar Association, submitted to the Ways and Means Committee, in which the beet sugar industry is represented as "saving hundreds of millions of dollars by substituting home produced sugar for imported sugar." This suggests a query: If a man having regular employment at $10 per day should lay off to do work for himself which he could hire done at $5 per day, would he be "saving" $5 per day?

The Consumers' Interest in The Duty

The price of sugar is raised to consumers by more than the amount of duty paid. In the first place, the duty is paid upon raw sugar, which loses weight in the refining process, so that when the duty is reckoned upon the refined product it is approximately 1.88 cents per pound instead of 1.76. Moreover, since the duty is approximately equal to the present price of sugar, c. and f. New York, the amount of working capital required by refiners in handling sugar is nearly doubled by the duty, and interest charges are correspondingly increased. It is calculated that by the time sugar leaves the refiners the cost attributable to the duty has been increased to 2 cents per lb. Since the consumption of sugar in the United States in 1928 was 12,415,000,000 lbs., it follows that the increase due to the tariff was not less than $248,000,000. Of this amount approximately $118,000,000 went to the Treasury of the United States, upon imports from Cuba, and the remainder, approximately $130,000,000, was a bonus to the sugar producers of the Continental United States and our Insular Possessions, distributed $52,000,000 to the U. S. A. and $78,000,000 to the I. P.

Professors B. H. Hibbard, John R. Commons and Selig Perlman, of the University of Wisconsin, have published an estimate that the proposed increase will cost consumers $150,000,000, as against a gain of $26,000,000 to less than 3 per cent of the American farmers. According to this estimate, the increase in the cost of sugar to all farmers will be $33,000,000. The three economists, who are men of reputation and closely identified with the work of the Wisconsin State College of Agriculture, estimate that under the present tariff the benefit to the growers amounts to $43,000,000 annually and the burden to all farmers to $64,000,000—a net cost of $21,000,000 per year to the farming population.

The research department of the American Farm Bureau Federation estimated in 1923 that all consumers paid $192,000,000 more as the result of the existing tariff on sugar, and that the farming population paid $48,100,000 of this amount, as against a gain to the sugar growers of the United States of $45,800,000—a net cost of $2,300,000 to the farmers as a whole.

The proposal for the increase is supported mainly on the ground that it is a measure of agricultural relief, but it is evident that unless a farmer expects to grow sugar beets he will simply have more taxes to pay. The University of Wisconsin professors calculate the number of farmers growing beets to be about 3 per cent of all farmers, but this must include part-time laborers, as the Census of 1920 gives the total number of farms producing sugar beets in 1919 as 47,211 and this was only .73 of 1 per cent of the total number of farms in the country. The total acreage in beets in that year was .13 of 1 per cent of all improved land in farms. The average number of acres per sugar beet producing farm was 13.48.

Another argument in behalf of the measure is that it is necessary to enlarge beet sugar production in order to diversify farm crops

and reduce the overproduction of other crops. The total number of acres in sugar beets in 1928 was 644,000, which is less than one-quarter of 1 per cent of the improved land in all farms. Just how much 644,000 acres amounts to in the agriculture of the United States may be judged by the figures for the acreage in wheat in the single State of Kansas in 1928. The acreage sown in the Fall of 1927 was 12,296,000 acres, the condition report on May 1, 1928, indicated that 10,824,000 acres had come through the winter and the prospect was for a crop 142,877,000 bushels of wheat. The final report on the crop was that 10,433,000 acres had been harvested (1,863,000 less than planted) and that the crop was 177,361,000 bushels.

The number of acres in cotton reported under cultivation in Texas on June 1, 1928, was 18,353,000 and the number harvested was 17,766,000, showing abandonment of 687,000 acres, or something more than the total acreage of sugar beets in the country.

These illustrations might be extended. If the acreage in sugar beets was doubled, the amount of land withdrawn from any one crop would be negligible. It is safe to say that the flour, meats, cotton goods and other farm products sold in profitable trade with Cuba and the countries around the Caribbean, together with the farm products consumed by American workmen who one way or another are employed in producing for that trade, account for the use of more farm land than is occupied by sugar beets.

A Fair Settlement Desirable

In conclusion, it should be said that nobody is attacking the beet sugar industry or seeking to deprive it of a reasonable degree of protection, corresponding to what it has had in the years during which it developed to approximately its present position. In the plains region where it has had its chief development, the climatic conditions are favorable to a higher percentage of sugar in the beets than in other sections of the country, freight charges on sugar from the seaboard are an important factor, and the industry is worth more to agriculture than in regions farther east. The cane sugar industry of Louisiana has been long established and nobody is seeking to deprive it of such protection as it has enjoyed. So long as the non-dutiable production was confined to these two sources the bulk of the price increase which resulted from the import duty went into the public treasury and this always has been the principal justification for sugar duty. With the free admission of the insular sugars, however, not more than one-half of the increase now goes to the Treasury, and if domestic sugar finally excludes foreign sugar, none of the increase resulting from the duty will reach the Treasury. Thus will gradually disappear what in the past has been one of the strongest supports of the sugar duty, and whether the Louisiana and western beet producers realize it or not, their position is weakened by the propaganda for a full domestic supply.

If the policy of the country upon sugar in the past virtually pledges the country to a consistent policy in the future, the United States is pledged to fair treatment of the Cuban sugar industry. Although the proposed tariff purports to give a preferential rate to Cuban sugar, a rate which ultimately excludes Cuban sugar cannot be considered fair treatment even though a higher nominal rate is named against other sugars. The fact is that Cuba has had no benefit from the reciprocity rate for many years, because she has had more sugar than could be sold in the United States, and the price at which the surplus could be sold in world markets has necessarily governed sales to the United States.

For practical economic reasons Cuban sugar is entitled to a place in the markets of the United States. The lower cost of sugar production in Cuba is due in the main to climatic conditions rather than to lower wage rates. In the words of Professor Wright, less labor is required to produce sugar in Cuba than in the United States, while on the other hand nearly all manufactures and most of the farm products of this country can be sold to Cuba at prices below the costs at which that country is able to produce them. This affords the basis of trade advantages to both sides. We close with another quotation from Professor Wright and the Institute of Economics, summing up the case:

> In recent years a little less than one-half of the domestic consumption has been of domestic production. This situation may be regarded as by no means unsatisfactory. It was brought about by the rates of 1.685 cents per pound of the Act of 1897, later reduced to 1.348 cents per pound by the reciprocity treaty with Cuba; continued at the same rate (1.348 cents per pound) under the Act of 1909; and again reduced to 1.0048 cents per pound by the Act of 1913. The acts of 1921 and 1922 have not yet had time greatly to affect the marginal costs of production either in the United States or Cuba.
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> In making a recommendation, the Institute is guided by the principle just outlined. A weighing of the conflicting interests (the government in its need for revenue, the masses of the people as taxpayers and consumers, the domestic producers, the refiners, and the American investors in Cuban sugar properties) has led to the conclusion that the most equitable adjustment will be affected by a rate which will stabilize the industry in about its present position with reference to foreign and domestic sugars.
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> A careful weighing of all the arguments and of all the results developed by the inquiry leads to the conclusion that from the standpoint both of revenue and protection sugar is a suitable commodity to be subject to a moderate rate of duty. A rate that will maintain roughly the present proportions of domestic and foreign sugars in the domestic market, is recommended. From the best data now available, a rate of not less than 1.25 nor more than 1.5 cents per pound on 96° Cuban centrifugals is suggested as adequate to accomplish this purpose.